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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, April 18, 2001

APPLICATION OF

CASE NO. PUA010007

VERIZON SOUTH INC.

AND

VERIZON VIRGINIA INC.

For exemptions from the affiliated interest  
filing and approval requirements pursuant  
to § 56-77 B of the Code of Virginia

**ORDER GRANTING EXEMPTIONS**

On January 25, 2001, Verizon South Inc. (“Verizon South”) and Verizon Virginia Inc. (“Verizon Virginia”) (collectively, “ Applicants”) filed an application with the Commission pursuant to § 56-77 B of the Code of Virginia requesting the Commission to grant Applicants exemptions from the filing and prior approval requirements of § 56-77 A of the Code of Virginia.

In their application, Applicants note that the Commission adopted price indexing alternative forms of regulation for Verizon Virginia and Sprint local exchange companies, i. e., United Telephone-Southeast, Inc., and Central Telephone Company of Virginia, which became effective on January 1, 1995. Applicants also note that the Commission adopted a similar price indexing alternative form of regulation for Verizon South (“the Verizon South Plan”) by Order dated December 21, 2000, in Case No. PUC000265. The Verizon South Plan became effective on January 1, 2001.

Subsequently, the Commission by Order dated March 28, 1997, in Case Nos. PUA960044, PUA960046, and PUA960047 granted Verizon Virginia (f/k/a Bell Atlantic-Virginia, Inc.), Central Telephone Company of Virginia, and United Telephone-Southeast, Inc., respectively, exemptions from the prior approval and filing requirements of the Affiliates Act. Verizon South was granted a limited exemption from such requirements by Order dated May 8, 1998, in Case No. PUA970043.

Applicants assert that the purpose of the affiliate filing requirements is "to assure that the affiliates of public service companies do not receive unjust benefits to the detriment of the customers of the public service company." Applicants state that it is no longer necessary for the Commission to approve, in advance, affiliate transactions to protect the public interest as Verizon South can no longer seek recovery of cost increases from affiliate transactions or otherwise through price increases. Any ability to recover such costs was severed on January 1, 2001, when Verizon South ceased to operate under a traditional, cost-based regulatory model. Applicants also note that the Commission has the authority to revoke any exemption previously granted if it finds such action in the public interest.

Applicants state that Verizon South will continue to provide the Commission with an annual report of all affiliate transactions. This annual report will provide the Commission with the information needed to monitor affiliate transactions and to exercise general oversight and other authority in an informed manner. Applicants state that such reporting is consistent with that currently required for other companies, including those exempted from the prior approval and filing requirements of the Affiliates Act.

Applicants reference the Commission's Order issued on November 29, 1999, in Case No. PUC990100 whereby it approved the merger of Bell Atlantic Corporation and GTE Corporation

and directed Verizon South and Verizon Virginia to file for approval of all affiliate agreements between themselves and the affiliates of the other, “until further ordered.” Applicants state that this requirement was meant to avoid any potential for shifting costs from a price indexing company to a rate base, rate of return company such as Verizon South. Applicants represent that any potential for such cost shifting no longer exists as both Verizon Virginia and Verizon South now operate under price indexing alternative forms of regulation. Applicants state that, since the rationale for such requirement no longer applies to Applicants, the filing and approval requirement set out in the above-referenced Order should be terminated.

As further support for granting the requested exemptions, Applicants note that such action will reduce the administrative burden of the Commission without compromising the receipt of relevant information from annual affiliate filings. Applicants believe that granting the requested exemptions is equitable since competitive local exchange carriers do not have to meet the requirement of § 56-77 A and since similarly regulated local exchange carriers such as Verizon Virginia, United Telephone-Southeast, Inc., and Central Telephone Company of Virginia have been operating under such exemptions since March 28, 1997.

On February 8, 2001, the Commission issued an Order directing Applicants to give notice of their application, providing interested persons with an opportunity to comment and request a hearing, and directing its Staff to file a report detailing the results of its review.

Pursuant to that Order, Comments were filed by Kent P. Ferguson (“Mr. Ferguson”) and AT&T Communications of Virginia, Inc. (“AT&T”). In his Comments, Mr. Ferguson alleges that “Verizon” is seeking to take advantage of a loophole to increase its revenues. Mr. Ferguson also objects to the fee charged by “Verizon” for providing additional exchanges in the Virginia Beach area.

In its Comments, AT&T requests the Commission to reject Applicants' request for exemptions. AT&T believes that granting such exemptions would simply facilitate Applicants' ability to constrain competition in the provision of competitors' local exchange and other telecommunications services.

Pursuant to a March 16, 2001, Order of the Commission, Applicants filed Comments in Reply to AT&T's Comments ("Reply") on March 23, 2001. In their Reply, Applicants restate their belief that there is no reason for requiring Verizon Virginia and Verizon South to file for approval of affiliate agreements. Applicants also note that the Commission is already addressing anti-competitive concerns in other dockets and that such concerns are not relevant to the purpose of this proceeding.

Staff filed its Report on March 30, 2001. In that Report, Staff recommends that the Commission approve the requested exemptions for Verizon Virginia and Verizon South. Staff agrees that the reasons for requiring Verizon South and Verizon Virginia to file for approval of affiliate agreements no longer exists. Staff notes that neither company currently operates under a traditional, rate of return, cost-based regulatory plan and that both companies currently operate under similar regulatory plans. Staff also believes that the reason for requiring Verizon Virginia to file for approval of all affiliate agreements with Verizon South, as stated in the Commission's Order in Case No. PUC990100, no longer exists. Staff states that competitive issues raised in AT&T's Comments are more

appropriately addressed in other proceedings and/or other Commission procedures.<sup>1</sup>

Staff also recommends that Verizon Virginia and Verizon South continue to submit an Annual Report of Affiliate Transactions to the Director of Public Utility Accounting in the same format as that currently filed by Verizon Virginia. Such report should be filed by April 1 of each year. However, the format and due date for such report for both companies will be subject to modification based on the outcome of Case No. PUA980020. Staff recommends that, upon request, Applicants provide Staff with a copy of any requested affiliate agreement or arrangement.

On April 6, 2001, Applicants filed Comments in Reply to the Staff Report. Applicants have no objections to the recommendations detailed in Staff's Report. Applicants, however, request that the Annual Report of Affiliate Transactions be submitted to the Director of Public Utility Accounting in the requested format commencing with the year 2002.

NOW THE COMMISSION, having considered the application, the pleadings, Staff's Report, and applicable law, is of the opinion and finds that it is in the public interest to grant Applicants the requested exemptions. We also find it appropriate to adopt the above-referenced recommendations of our Staff. Staff's recommendation with respect to the submission of the Annual Reports of Affiliate Transactions shall be modified as requested by Applicants.

Accordingly, IT IS ORDERED THAT:

- 1) Pursuant to § 56-77 B of the Code of Virginia, Verizon South and Verizon Virginia are hereby granted exemptions from the filing and prior approval requirements of § 56-77 A of the Code of Virginia.

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<sup>1</sup> Staff specifically references informal or formal complaint procedures that are available pursuant to the Commission's Rules of Practice and Procedure and the Collaborative Committee established to investigate market-opening measures. Staff notes an Abbreviated Dispute Resolution Procedure that will soon be submitted for

- 2) Verizon South and Verizon Virginia shall continue to submit an Annual Report of Affiliate Transactions with the Commission's Director of Public Utility Accounting by May 1 of each year. Such reports shall identify all affiliate transactions entered into by each Applicant and shall use the format currently used by Verizon Virginia commencing with the Reports due May 1, 2002.
- 3) The reporting requirements detailed herein shall be subject to modification based on the outcome of pending Case No. PUA980020.
- 4) Upon request of Staff, Applicants shall provide copies of any requested agreements or arrangements with affiliates for Staff's review.
- 5) There appearing nothing further to be done in this matter, it hereby is dismissed.